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Report to the Chairman, Surface Transportation Subcommittee, Committee on Commerce, Science, and Transportation, U.S. Senate

June 1992

SURFACE TRANSPORTATION

Availability of Intercity Bus Service Continues to Decline

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Resources, Community, and
Economic Development Division

Surface Transportation: Availability of Intercity Bus Service Continues to Decline

B-247565

June 22, 1992

The Honorable J. James Exon
Chairman, Surface Transportation Subcommittee
Committee on Commerce, Science,
and Transportation
United States Senate

Dear Mr. Chairman:

In response to your request and subsequent agreements with your office, this report examines intercity bus service since the industry was largely deregulated in 1982. It makes recommendations to the Federal Transit Administration on implementing the Intermodal Surface Transportation Efficiency Act of 1991.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies to the appropriate congressional committees, the Chairman of the Interstate Commerce Commission, and the Secretary of Transportation. We will also make copies available to others upon request.

This work was done under the direction of Kenneth M. Mead, Director, Transportation Issues, who may be reached at (202) 275-1000 if you or your staff have any questions. Other major contributors to this report are listed in appendix III.

Sincerely yours,

J. Dexter Peach
Assistant Comptroller General

Executive Summary

Purpose

Except for regional bus firms, Greyhound Lines, Inc., is the only remaining nationwide provider of scheduled, regular-route intercity bus service, and it filed for bankruptcy protection in June 1990. This event climaxed decades of industry decline, which the Congress had hoped to reverse by passing the Bus Regulatory Reform Act of 1982. Concerned that Greyhound's bankruptcy could leave a segment of the population without intercity public transportation, the Chairman, Surface Transportation Subcommittee, Senate Committee on Commerce, Science, and Transportation, asked GAO to (1) assess the magnitude and causes of the industry's decline since 1982, (2) identify the social and economic implications of this decline, (3) examine state programs that support intercity bus service, and (4) identify policy strategies for the Department of Transportation (DOT) to consider as it develops guidelines to address intercity bus needs.

Background

From the 1960s through the early 1980s, the intercity bus industry experienced ridership losses and higher operating costs—a combination that led to declining profits. Increased competition from rail and air transportation made it difficult for the bus industry to retain its share of the common carrier intercity travel market, which fell from 30 percent in 1963 to 12 percent in 1981. The Bus Regulatory Reform Act of 1982 diminished the roles of the Interstate Commerce Commission (ICC) and state agencies in regulating the industry and gave bus firms greater freedom to set fares, enter markets, and discontinue unprofitable service.

Results in Brief

Regulatory relief for the bus industry in 1982 did not address the causes of the industry's decline: Shrinking rural populations, increased competition from air and rail transportation, and increased car ownership led to reduced bus ridership. Consequently, the industry continued to contract, from serving 11,820 locations in 1982 to serving fewer than 6,000 locations in 1991. The limited evidence available suggests that the riders who have been losing service are those least able to afford and least likely to have access to alternative modes of transportation.

From its survey of the 50 states, GAO found that 20 states have efforts that support regular-route intercity bus service. States most frequently assist bus firms by providing operating support for routes that might otherwise be abandoned and subsidies to obtain new vehicles. In addition, some states fund the construction or rehabilitation of intermodal terminals used by buses. Vehicle and terminal assistance reduces capital costs and

enhances the comfort and safety of bus travel, and may help to expand ridership. Voluntary coordination between intercity bus companies and rural transit agencies may also enhance access to bus service in some rural areas.

The Intermodal Surface Transportation Efficiency Act of 1991 recognized the need to expand federal transit activities to address intercity transportation needs. By requiring states to use a portion of their section 18 funds for intercity bus transportation (set-aside), this act may make more funding available for existing state programs. It may also provide an incentive to other states to initiate programs to enhance intercity bus service. However, some states could face difficulties in using the funds because DOT has not decided what activities will be eligible to receive section 18 set-aside funds and because of federal labor protection requirements.

GAO's Analysis

Magnitude and Causes of Decline Since 1982

Despite the 1982 act, regular-route intercity bus companies have continued to face declining profits. In addition, bus firms have continued to experience a loss of ridership and a shrinking share of the intercity travel market. For the two largest carriers, Greyhound and Trailways (which was purchased by Greyhound in 1987), ridership fell from over 11 billion passenger-miles in 1980 to just under 6 billion passenger-miles in 1990. Over the same period, the bus industry's share of intercity passenger-miles on public transportation fell from 12 percent to 6 percent. In addition, the bus industry's profitability has been constrained by declining revenues from package express service due to increased competition from package delivery firms.

In response to falling demand and worsening finances, intercity bus companies eliminated scheduled service on many unprofitable routes and downgraded service on others. The number of places served by intercity buses declined from 11,820 in 1982 to 5,690 in 1991. Most of the lost service has been in rural areas where shrinking populations and the growth of automobile travel have reduced ridership. In addition, active price competition from airlines and Amtrak has resulted in travelers' switching from bus to airlines or trains in certain markets.

About half of the state transportation officials GAO surveyed expect intercity bus service to decline further in the next 5 years. Greyhound, the sole remaining nationwide carrier, emerged from bankruptcy protection in October 1991. Its success as a reorganized firm is yet to be demonstrated.

Implications of Decline

It is difficult to assess the impact of the decline in intercity bus service because data on the number and characteristics of users of the abandoned routes are scant. The available evidence suggests that the affected riders are those least able to afford and least likely to have access to alternative transportation. Many bus riders have low incomes: 46 percent have annual household incomes of $15,000; only 24 percent of the general population earns less than $15,000.

Most abandoned bus routes connected small, geographically isolated rural communities that were generally without passenger rail or air service. Anecdotal evidence from studies and state officials suggests that some former riders have no transportation alternatives and must forego trips they once took by bus. In addition, businesses in rural areas that must ship and receive time-sensitive goods, such as human blood supplies, may have to pay more for alternative transportation. However, without a clear measure of the magnitude of these effects, it is difficult to determine the appropriate public policy response to declining bus service. While public transit services meet some needs, they are available in only 60 percent of rural and small urban counties. Further, the extent to which these services replace lost intercity bus service is unknown.

State and Private Efforts Promote Continued Service

GAO identified 20 states that have programs to support intercity bus service. These efforts, which may include both state and local participation, provide (1) operating subsidies to intercity bus firms to support continued service over specific routes, (2) new vehicles to bus firms at reduced cost, (3) financing for constructing or rehabilitating bus terminals, and (4) other assistance to bus firms and their riders.

Under a 1987 program initiated by Greyhound and the Community Transportation Association of America, participating transit agencies transport people to Greyhound bus stops. As of December 1991, this Rural Connection Program included 73 transit agencies serving over 850 communities in 20 states. This type of program may be an effective way to improve access to intercity bus service for communities not on main bus routes.

New Law May Expand State Assistance, but Potential Barriers Exist

The 1991 act is likely to expand state efforts to assist the intercity bus industry. After a 2-year phase-in period, the act requires states to spend at least 15 percent of their section 18 allocation to assist intercity bus service, unless the governor certifies that existing service is adequate. Eight states currently use these funds to support intercity bus service, and the requirement will likely encourage more states to do so. Officials from 43 states expect that their state will spend the set-aside funds on intercity bus service. However, some states may find it difficult to use these funds effectively if certain aspects of feeder service, such as marketing and extended hours of service, are not eligible for the set-aside funding. FTA has not determined what aspects of feeder service will be eligible.

In addition, the labor protection provisions included in section 13(c) of the Federal Transit Act of 1964 may discourage some states from making the allocation. For example, a state may face liabilities under this provision if transit employees lose employment, status, or benefits because of the federal transportation funds provided. It is not known, however, how this provision will affect states' use of set-aside funds for intercity bus service or whether the Secretary of Labor will waive the requirement.

Recommendations

GAO recommends that the Secretary of Transportation direct the Administrator, Federal Transit Administration (FTA), to specify eligible items when developing guidance to implement the set-aside. Specific items that should be considered for eligibility are (1) arrangements between rural connection providers and intercity bus firms, including marketing efforts and extended hours of service, and (2) efforts to gather data on bus riders who have lost service. FTA should also assess whether section 13(c) poses a barrier to using set-aside funds. (See ch. 3.)

Agency Comments

GAO met with officials from DOT's Office of the Secretary (Offices of Management Planning, Transportation Regulatory Affairs, and Programs and Evaluation) and FTA (Offices of Administration and Grants Management) to discuss the contents of this report. GAO also met with officials from the ICC's Offices of Economics and of Compliance and Consumer Assistance. Both agencies generally agreed with GAO's findings and conclusions. However, as agreed, GAO did not obtain written agency comments on a draft of this report.

Contents

Figures

Abbreviations

DOT	Department of Transportation
FTA	Federal Transit Administration
GAO	General Accounting Office
ICC	Interstate Commerce Commission
UPS	United Parcel Service

Introduction

Traditionally, the intercity bus industry has played a significant role in connecting the nation's small towns and rural communities to larger urban areas and to each other.[1] However, for more than 40 years the industry has been in decline. Rising real incomes have made automobiles more affordable, while airline deregulation has resulted in substantially lower air fares—sometimes lower than bus fares. In addition, fares for Amtrak passenger rail service are heavily subsidized by the federal and some state governments, resulting in traffic shifts from bus to rail, especially in several major travel markets.

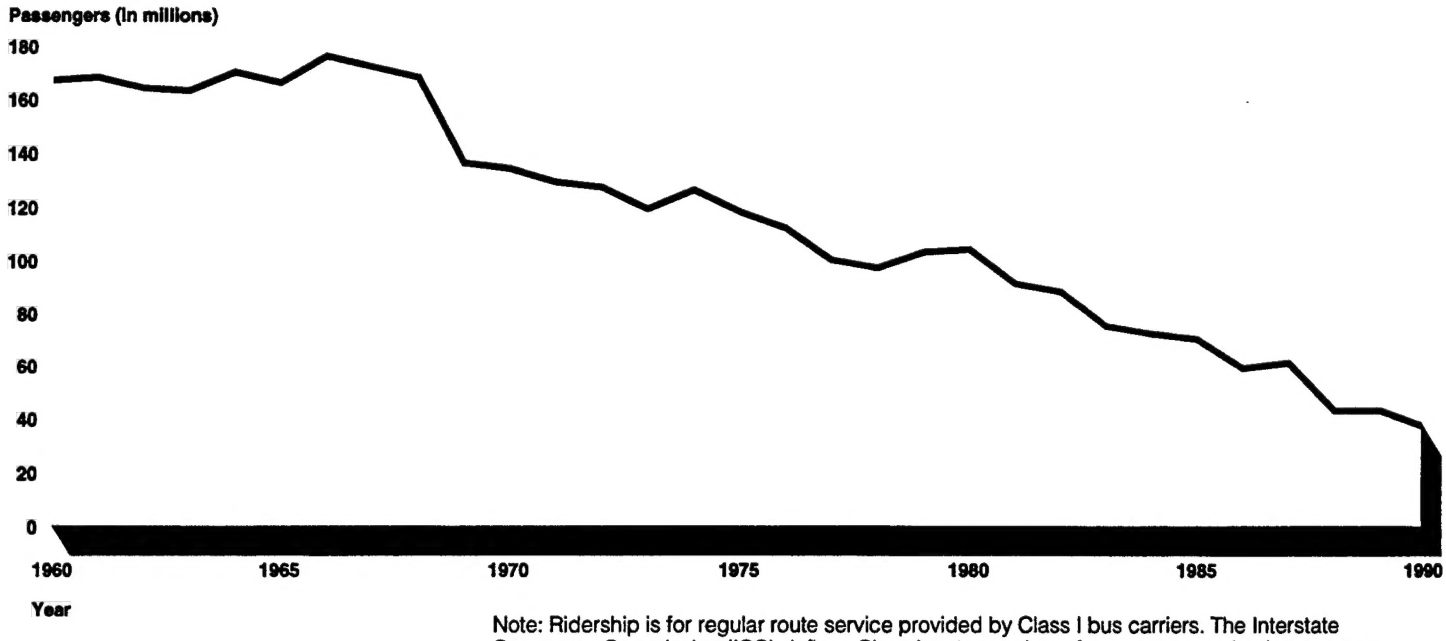
The intercity bus industry needed to adapt to a changing market, but federal and state regulations governing rates and routes made this difficult. In 1982 the Congress eased regulation of the intercity bus industry, expecting that greater freedom to enter markets, abandon unprofitable routes, and set fares would arrest the industry's decline and improve profitability.

The Intercity Bus Industry Prior to 1982

Rising automobile use and increased competition from rail and air made it difficult for the bus industry to retain ridership in the 1970s and 1980s (see figure 1.1). As a result of greater automobile ownership and an improved highway system, Americans in increasingly large numbers chose to drive themselves on intercity trips, reducing the demand for bus service. In 1950 Americans traveled 438 billion passenger miles by automobile; that figure more than doubled by 1970 and nearly tripled to 1,300 billion passenger miles by 1980. In 1969 just under 80 percent of American households owned at least one automobile; by 1977 that figure was up to almost 85 percent, with nearly 50 percent of households owning more than one car. Increased discretionary travel was facilitated by the second vehicle.

[1]Intercity bus service is regular-route service that (1) operates between two or more cities, towns, or isolated clusters; (2) operates on a fixed schedule; (3) carries the general public and is not subject to preconditions for passage, such as advance reservations, membership in a particular organization or group, or restrictions such as age or a particular disability; and (4) does not operate wholly within urbanized areas. This excludes service provided by nonprofit or public entities that receive public funding and serve a single county, a limited number of counties, or a single regional transit area in a single state.

Figure 1.1: Intercity Bus Ridership, 1960-90



Note: Ridership is for regular route service provided by Class I bus carriers. The Interstate Commerce Commission (ICC) defines Class I motor carriers of passengers as having average annual gross revenues of $5 million or more from passenger motor carrier operations after applying a revenue deflator formula. The ICC periodically changes the definition of Class I carriers, which may be responsible for some of the decline in passengers.

Source: National Association of Motor Bus Owners, ICC, and the American Bus Association.

In 1971 intercity buses faced renewed competition from passenger rail when Amtrak was formed in an effort to save railroad passenger service. Competition from Amtrak reduced demand for intercity bus service, particularly between major cities. Amtrak was able to set attractive fares because of federal grants and state support for certain routes. While buses also received subsidies, these were nominal compared with Amtrak's. During the 1970s a study for the bus industry estimates that federal subsidies to Amtrak averaged $21.47 per passenger, while the intercity bus industry received less assistance than it paid in user fees, except for 1976 and 1979, when it received $.006 and $.054 per passenger, respectively.[2] Federal highway construction benefited the bus industry, but it received

[2]Robert R. Nathan Associates, Inc., Federal Subsidies for Passenger Transportation 1960-1988: Winners, Losers, and Implications for the Future (Washington, D.C.: May 1989).

no direct federal subsidies except for some excise tax refunds beginning in 1978.[3] In 1979 we reported that on densely traveled routes in the Northeast, Amtrak's subsidized fares diverted riders from intercity buses.[4] While bus subsidies increased to $0.07 per passenger in the early 1980s, Amtrak subsidies increased to more than $50 per passenger. Because train travel is more comfortable than bus travel, subsidized rail fares made it difficult for intercity buses to retain ridership where they competed with Amtrak.

In addition, airline deregulation in 1978 produced lower real fares and greater demand for air travel, which resulted in many bus travelers' shifting to airlines. Following airline deregulation, several low-cost carriers entered the industry. In 1981 People's Express was started as a low-fare, "no frills" airline that was able to operate with very low seat-mile costs. People's Express targeted the intercity bus passenger with airfares sometimes significantly lower than bus fares. For example, in 1983 People's Express offered a $23 fare between Newark, New Jersey, and Norfolk, Virginia, while Greyhound's fare for the trip was $56.15.

Regulation Limited the Industry's Adaptability

In order to adapt to the changing competitive environment, the bus industry needed to reduce costs and become more efficient. However, existing federal and state regulations made it difficult for bus firms to abandon unprofitable routes or adjust fares. The Motor Carrier Act of 1935 gave the ICC the authority to regulate fares and grant operating authority for regular-route, charter, and package express services on interstate routes. In addition, many states regulated intercity bus fares and service on intrastate routes.

To maintain the right to operate over the more profitable routes or to operate charter services, intercity bus firms often had to serve unprofitable routes. Revenues from the more profitable services were used to cross-subsidize money-losing routes. However, as industry profits fell, less revenues were available for cross-subsidy, and, increasingly, carriers petitioned state regulators to raise intrastate fares or abandon unprofitable routes. This was a relatively time-consuming and costly process.

Bus Industry Declined Prior to 1982

From the 1960s until the early 1980s, the intercity bus industry was in decline. A combination of reduced ridership and cost increases, including

[3]The Energy Tax Act of 1978 provided refunds to intercity bus firms for federal excise taxes on bus fuel and up to 6 cents per gallon on lubricating oil. It also eliminated federal excise taxes on tires, inner tubes, and tread rubber for intercity buses. These provisions have been modified. Currently, the full amount of excise taxes on gasoline and tires, and the amount minus 3.1 cents per gallon of other fuels, is still refundable. The refund on lubricating oil was repealed in 1983.

[4]Amtrak's Economic Impact on the Intercity Bus Industry (GAO/PAD-79-32, Jan. 12, 1979).

higher fuel and labor costs, led to falling profits and declining service. For example, the operating ratios of the largest bus firms increased from 85.6 in 1963 to 95.0 in 1981.[5] Over the same period, the bus industry's share of passenger miles traveled by public carriers fell from 30 percent to 12 percent.

Regulatory Reform of the Bus Industry in 1982

In response to the decline of the intercity bus industry, the Congress enacted the Bus Regulatory Reform Act of 1982, providing greater pricing flexibility and making it easier for both regular route and charter carriers to enter the industry and abandon routes. The act also reduced state control of the industry. Under the law, if a state refuses or fails to act on a carrier's request to discontinue intrastate service or to raise intrastate rates, the carrier may petition the ICC for such permission. In practice, the ICC permits a carrier to abandon an intrastate route or raise intrastate fares if the carrier can demonstrate that variable costs, such as salaries and fuel, exceed the revenues associated with that route. In addition, the ICC grants rate petitions if the carrier can show that its intrastate fares are lower than comparable interstate fares. The ICC has approved 64 out of 78 abandonment appeals and 71 out of 76 rate appeals since 1982.[6]

Federal Role in Supporting Intercity Bus Service

The Federal Transit Administration (FTA)[7] provides funds under several programs (see table 1.1) that states may use to support intercity bus service. State and local governments as well as public transit authorities are eligible for FTA grants to subsidize operating costs, build new terminals, and market and promote bus service. Private bus companies are, for the most part, not eligible recipients under these programs. However, section 18 of the Federal Transit Act[8] created a specific grant program to assist public transportation in nonurbanized areas.[9] The grant funds are apportioned to the states under a formula based on the state's nonurbanized population. Section 18 grants are expressly available to provide capital and operating assistance and project administration support to both public and private recipients. Operating assistance grants

[5]The operating ratio is operating expenses divided by operating revenues times 100. A ratio greater than 100 indicates an operating loss.

[6]Of the 14 abandonment appeals that were not approved, 3 were denied and 11 were dismissed or withdrawn. Of the five rate appeals not approved, one was denied and four were dismissed.

[7]Formerly the Urban Mass Transportation Administration.

[8]Formerly called the Urban Mass Transportation Act of 1964.

[9]Nonurbanized areas have populations of less than 50,000 and are not part of urbanized areas.

under section 18 require at least a 50-percent match from nonfederal and nontransit sources, and capital or project administration grants may provide up to 80 percent of the project cost.

Table 1.1: FTA Funding Sources Used to Support Intercity Bus Service as of December 1991

FTA assistance programs	Purpose of funding source	Examples of uses for intercity bus service
Section 18 formula grant program for nonurbanized areas	Administrative, capital, and operating assistance for public transportation in nonurbanized areas	Operating subsidies for routes serving nonurbanized areas
Section 3 discretionary capital grants and loans program	Capital assistance for rail and bus transit in urban and rural areas	Terminal assistance
Section 8 planning and technical studies grants	Planning and technical studies related to mass transportation services	Bus service and bus program analyses
Section 9 block grant program for urbanized areas	Planning, capital, and operating assistance in urbanized areas	Intermodal terminals for intercity or commuter bus service
Entrepreneurial services challenge grants	One time planning and capital assistance to transit services that have the potential to become self-sustaining	Planning and capital grants for replacement bus service

The Intermodal Surface Transportation Efficiency Act of 1991 includes programs that can be used to support intercity bus service. These programs have not been implemented yet and are therefore not included in table 1.1. The Intercity Bus Transportation Program (section 18(i) of the 1991 act) requires each state to set aside a portion of its section 18 funds to develop and support intercity bus transportation. States must spend at least 5 percent of their section 18 funds for intercity bus transportation in fiscal year 1992, 10 percent in fiscal year 1993, and 15 percent in subsequent years. A state, however, is excused from this requirement if the governor certifies that the state's intercity bus needs are being met. Nationwide, section 18 authorizes over $122 million to be spent on intercity bus service over the next 5 years (see table 1.2).[10]

[10]The amount actually received by states will depend on the amount appropriated by the Congress. In 1992, the Congress appropriated only $66.13 million for section 18, and the President's 1993 budget request asks for only $86 million.

Table 1.2: Authorized Section 18 Funding Set-Aside for Intercity Bus Service, Fiscal Years 1992-97

Dollars in millions

Fiscal year	Total section 18 authorization	Authorized section 18(i) set-aside for intercity bus service
1992	**$106.0**	$ 5.3
1993	**151.56**	15.16
1994	**153.8**	23.07
1995	**153.8**	23.07
1996	**153.8**	23.07
1997	**217.73**	32.66
Total	**$936.78**	**$122.33**

The 1991 act also authorizes over $40 million in grants to build intermodal terminals, which accommodate more than one type of transportation, in Fort Worth, Texas; Mount Vernon, New York; Saint Bernard, Louisiana; Nashville, Tennessee; and St. Louis, Missouri. In addition, the law gives states the flexibility to use capital funds from the Surface Transportation Program and National Highway System Program for transit projects funded under the Federal Transit Act, such as developing intercity bus terminals and other capital projects that would assist intercity bus service.

States have also supported intercity bus programs with state funds, such as general tax revenues, special transportation taxes, and fuel taxes. States use these funds both to match federal funds and to implement their own programs to support intercity bus service.

Objectives, Scope, and Methodology

Concerned that the declining financial condition of Greyhound could result in a further reduction of intercity bus service and affect many people who lack alternative transportation, the Chairman of the Surface Transportation Subcommittee, Senate Committee on Commerce, Science, and Transportation, asked us to assess the condition of the intercity bus industry. Specifically, we were asked to (1) assess the magnitude and causes of the intercity bus service decline since the Bus Regulatory Reform Act was passed in 1982, (2) identify the social and economic implications of this decline, (3) examine state efforts to support intercity bus service, and (4) identify policy strategies for the Department of Transportation (DOT) to consider as it develops guidelines to address intercity bus needs.

To quantify the decline in intercity bus service, we examined major industry assessments by the Motor Carrier Ratemaking Study Commission and the ICC.[11] We updated their estimates of service reduction by using an automated list of locations receiving bus service prepared by Russell's Guides, Inc., which publishes a standard reference for bus schedules in the United States.[12] To determine the causes and implications of bus service decline, we reviewed available literature, interviewed officials at the ICC, DOT, and the Departments of Labor and Agriculture. We also interviewed representatives of state transportation agencies, bus industry analysts, the American Bus Association, Greyhound Lines, Inc., the Amalgamated Transit Union, the National Trailways Bus System, and three regional bus firms—Carolina Coach, Inc., Indian Trails Bus Company, and Jefferson Lines, Inc. To obtain perspectives on transportation alternatives in rural America, we also interviewed representatives of the Community Transportation Association of America, an organization representing small transportation providers.

To identify state efforts to support intercity bus service, we surveyed transportation officials in the 50 states. We obtained a 100-percent response. A copy of the questionnaire with total results is included in appendix I. Our survey identified 20 states with activities to assist intercity bus transportation, from which we selected 10 states for more detailed reviews—California, Iowa, Massachusetts, Michigan, Nebraska, New York, North Carolina, Oregon, Pennsylvania, and Wisconsin. These states were identified by industry experts as having the most significant and extensive efforts and as representative of the types of state activities nationwide. In October 1991 we attended the National Conference on Rural Public Transportation in Asheville, North Carolina, and obtained the views of state officials on the then-proposed Intermodal Surface Transportation Efficiency Act.

We conducted our work between November 1990 and March 1992 in accordance with generally accepted government auditing standards. We

[11]A Report to the President and the Congress of the United States, Part One: Collective Ratemaking in the Bus Industry: The Need for Antitrust Immunity and Part Two: Implementation of the Bus Regulatory Reform Act of 1982: The Impact on Older Americans and the Effect on Intrastate Bus Service, Motor Carrier Ratemaking Study Commission, (Washington, D.C., May 15, 1984); The Intercity Bus Industry, ICC, Office of Transportation Analysis (Washington, D.C., January 1984); and Letter to Senator Larry Pressler, from Heather J. Gradison, Chairman, ICC (Washington, D.C., May 15, 1984).

[12]According to DOT officials, Russell's Guide contained many duplicate and erroneous entries that were corrected during the 1980s. A Russell's Guide official disagreed, noting that the guide was computerized in 1985, which resulted in some improvements in an already accurate publication. We do not know the extent to which the corrections might be responsible for changes in the number of locations served, but we believe they were nominal.

met with ICC and DOT officials to discuss the contents of this report and incorporated factual changes where appropriate. As requested by the Chairman's office, however, we did not obtain written agency comments on a draft of this report.

Decline of Intercity Bus Service Is Significant, Although Effects Are Difficult to Assess

Regulatory relief for the intercity bus industry in 1982 did not revitalize the industry nor stem the long-term decline in regular route bus service. After purchasing Trailways in 1987, Greyhound became the only nationwide bus carrier. However, despite its dominant industry position, Greyhound filed for bankruptcy protection in June 1990 because of financial problems. Although Greyhound emerged from bankruptcy reorganization in October 1991, its success is yet to be demonstrated.

As the intercity bus industry contracted during the 1980s, service continued to decline. In 1982 intercity buses served almost 12,000 locations; today they serve fewer than 6,000. Most of the lost service has been in rural areas, where shrinking populations, the growth of automobile travel, and other factors have reduced ridership. In addition, many places have experienced service cutbacks as higher personal incomes and increased automobile use have reduced demand for intercity bus service. About half the state officials we surveyed expect bus service to continue to decline during the next 5 years.

The effects of declining intercity bus service are difficult to assess because of scant data. Limited evidence suggests that bus riders tend to be less affluent than other travelers and less likely to own a car than the general population. Therefore, a loss of bus service may deprive them of access to intercity transportation. Although 60 percent of the nation's nonmetropolitan counties[1] have rural and small urban transit services, the extent to which they meet the needs that used to be met by intercity bus service is unknown.

Bus Industry's Financial Decline Continued Through the 1980s

Despite the greater pricing and scheduling freedom allowed by the Bus Regulatory Reform Act of 1982, the intercity bus industry's financial condition worsened.[2] Ridership on scheduled intercity buses declined, profits were low or non-existent, and bus firms failed. Today, the industry is dominated by Greyhound, which has recently emerged from bankruptcy protection. The rest of the industry consists of much smaller, regional carriers.

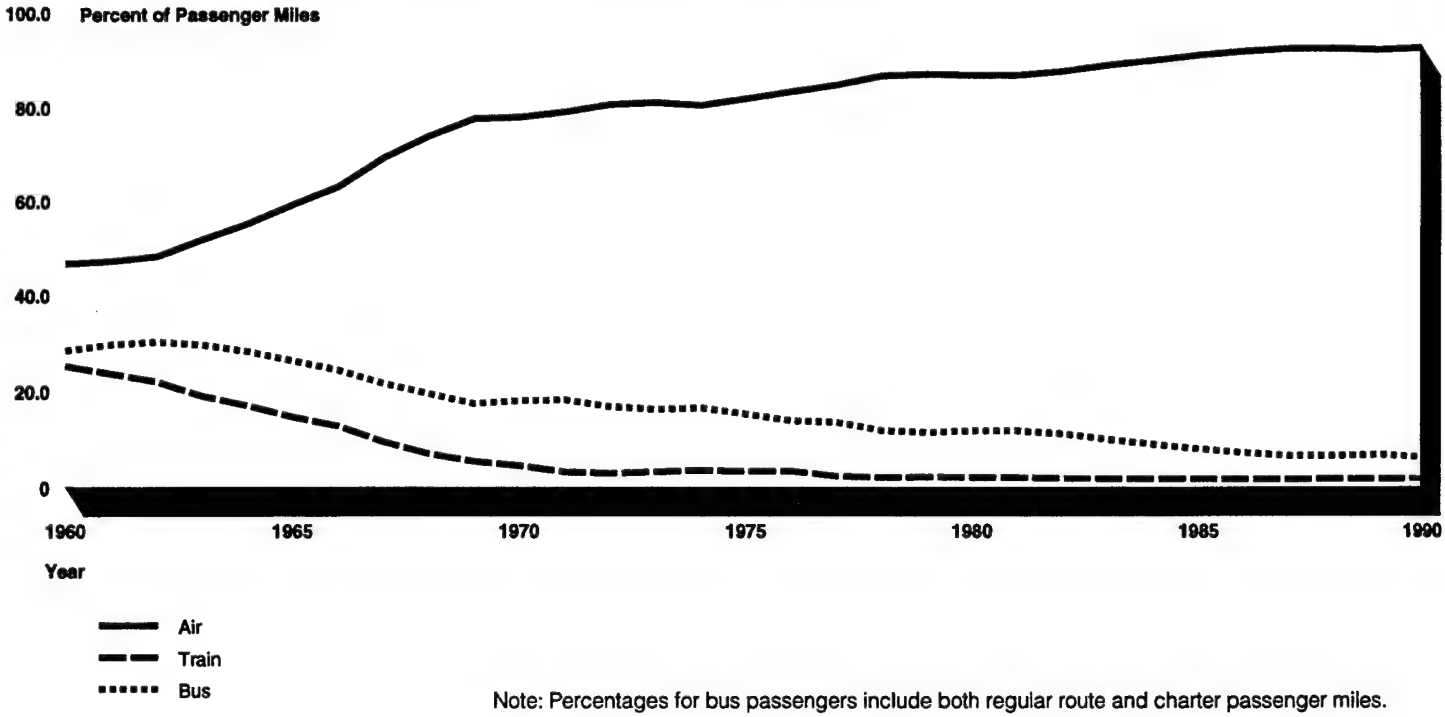
[1]Nonmetropolitan counties are those not included in metropolitan statistical areas (MSA). An MSA is a county or group of counties that includes either a city of 50,000 or more residents or an urbanized area with at least 50,000 people that is part of a county or group of counties with at least 100,000 total residents.

[2]Regulatory reform allowed many new firms to enter the bus charter business. The number of firms increased from under 1,000 in 1982 to about 3,600 in 1990. However, this increase in the number of charter firms led to overcapacity and severe price competition and resulted in a decrease in overall carrier profits.

Financial Performance Has Declined

The intercity bus industry's financial performance has declined since the Bus Regulatory Reform Act was passed in 1982. Between 1983 and 1990, the industry operating ratio for Class I bus carriers fluctuated between 95 and 115.[3] For the two largest carriers, Greyhound and Trailways,[4] ridership fell from over 11 billion passenger miles in 1980 to just under 6 billion passenger miles in 1990. In addition, competition from airlines and intercity rail in certain markets contributed to the continued decline in the bus industry's share of intercity passengers (see fig. 2.1). From 1980 to 1990, the bus industry's share of intercity passenger miles traveled on public transportation fell from 12 percent to 6 percent.

Figure 2.1: Modal Comparison of Domestic Intercity Passenger Miles, 1960-90



Note: Percentages for bus passengers include both regular route and charter passenger miles.

Source: Eno Foundation for Transportation, Transportation in America (Westport, Conn.: May 1991 and Dec. 1991) and Historical Compendium 1939-1985, (Westport, Conn.: 1986).

[3]Some Class I carriers provide only charter and commuter service.

[4]Greyhound purchased Trailways in 1987.

Profitability has also been hampered by declining revenues from the industry's package express service. In recent years buses have faced increased competition from firms such as United Parcel Service (UPS), Emery, Federal Express, and the U.S. Postal Service. In the past, package express was an important revenue source on some routes. Some bus routes were abandoned because of reduced package express business. Between 1985 and 1989, bus industry package express revenues dropped by 16 percent. From 1987 to 1990, Greyhound's package express revenues dropped by 42 percent.

The bus industry has not remained price- or service-competitive in the expanded package express market. For example, it costs $25.45 by Greyhound bus to ship a 25-pound package from Portland, Oregon, for delivery in Boise, Idaho. UPS will make the same delivery for $10.75.[5] While the bus industry's competitors all provide door-to-door service, bus firms only deliver to certain customers and locations, requiring other customers to pick up their packages at bus stations.

Changes at Greyhound Improved Financial Performance

Faced with continued decline in financial performance and high labor costs, the largest bus operator, Greyhound, was sold to a group of investors in 1986. Trailways, the second largest intercity bus carrier, faced substantial financial losses and appeared headed for liquidation. In 1987, Greyhound purchased Trailways as part of an investment and expansion plan. Other measures taken by Greyhound's new management included fare reductions, increased advertising, improved service, and capital improvements. As a result of these efforts, Greyhound's financial performance began to improve. By 1989 the number of passenger miles operated by Greyhound/Trailways was 23 percent higher than in 1986. The operating ratio for Greyhound improved from 99.6 in 1987 to 93.7 in 1989.

Greyhound Faces Strike and Files for Bankruptcy Protection

These improvements, however, were interrupted in 1990 by a strike by Greyhound's drivers and the firm's subsequent filing for chapter 11 bankruptcy protection. Contract negotiations between Greyhound and the Amalgamated Transit Union, representing Greyhound's drivers, had broken down, and on March 2, 1990, approximately 8,000 workers—primarily bus drivers—went on strike. Greyhound continued to operate during the strike, using employees who chose not to strike and newly hired replacement drivers. A wave of violence, including several

[5]Both firms charge extra for pick-up service—Greyhound charges $4.85 and UPS charges $5.00. Cost information is for Mar. 1992.

shooting incidents, accompanied the strike and frightened away many passengers from Greyhound as well as from other intercity bus carriers. The costs of dealing with the strike, and the related reduction in revenue, prevented Greyhound from making lease payments due in April 1990 and interest payments on loans due in May and June. The firm filed for protection under chapter 11 in June 1990. Although Greyhound emerged from bankruptcy protection on October 31, 1991, its problems have not ended. Greyhound was recently charged with proposing anticompetitive tariff changes by a group of 50 independent bus firms. The ICC suspended the proposed tariff and ordered an investigation. When the ICC denied Greyhound's petition to reconsider this decision, Greyhound withdrew the proposed tariff changes. Greyhound's success as a reorganized firm remains unproven. If Greyhound fails, its nationwide network serving over 2,700 locations will be affected.

Intercity Bus Industry Today

Today, Greyhound is the only bus carrier providing nationwide intercity, regular-route service—20 other class I bus firms provide mainly regular-route bus service in specific regions. Greyhound dominates the regular-route service by intercity carriers with 75 percent of revenues and 43 percent of passengers. The next three largest intercity carriers accounted for 8 percent of the revenues in 1990.

The Level of Intercity Bus Service Has Declined Over the Long Term

Intercity bus service has been declining steadily since 1968, when it served 16,800 locations. By 1982 the number of locations served had fallen to 11,820. Prior to regulatory reform in 1982, the decline in locations served occurred when routes were moved from state to interstate highways, firms went out of business, or stops along routes were eliminated because of low ridership. However, state regulation made it difficult for firms to abandon entire routes. Since 1982 service has continued to decline. Fewer locations are served, and the level of service has been downgraded. Stops have been changed to "flag stops," and service has become less frequent at some locations.[6]

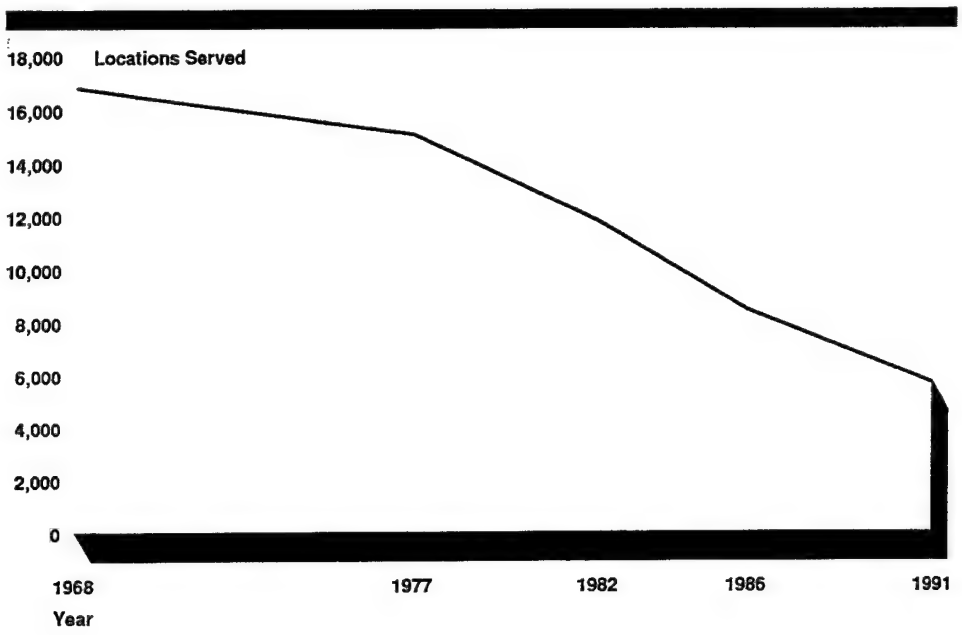
Many Routes Abandoned During the 1980s

A wave of abandonments followed regulatory reform of the industry in 1982, as intercity carriers, no longer hindered by state regulations, eliminated unprofitable routes and stops. In the first year alone, over 18 percent of the locations served lost all intercity bus service. In 1984 the ICC

[6]At "flag stops" a bus will pick up passengers if they wave or flag the bus down indicating that they want a ride. To be discharged at a flag stop, a passenger must ask the driver to stop.

found that 73 percent of the locations that had lost service since 1982 were in areas with populations of less than 10,000. We estimate that as of November 1991 intercity buses served 5,690 locations compared with 11,820 in 1982, a 52-percent decline. Figure 2.2 shows the reduction in bus service from 1968 to 1991.

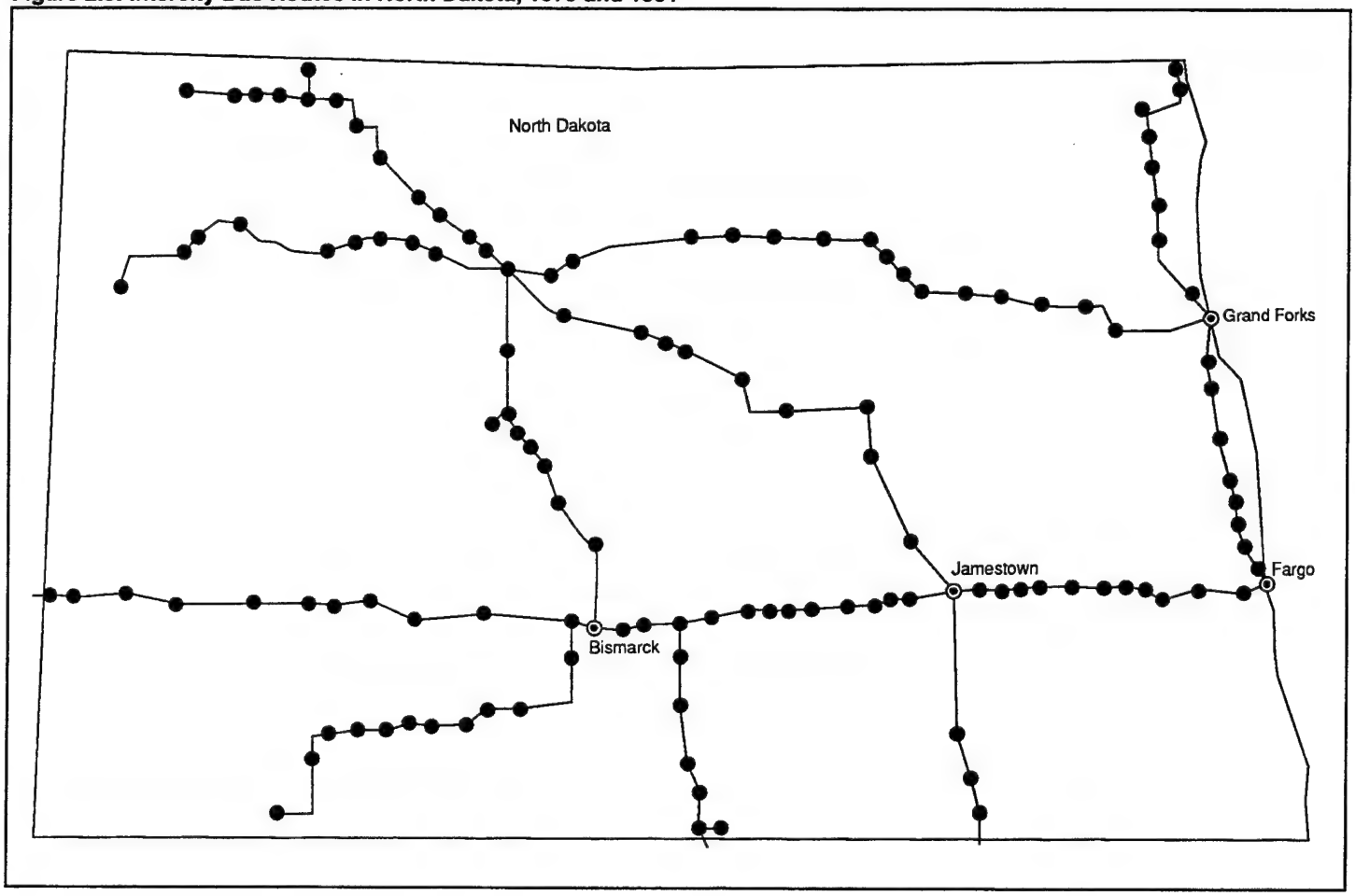
Figure 2.2: Locations Served by Intercity Buses, 1968-91

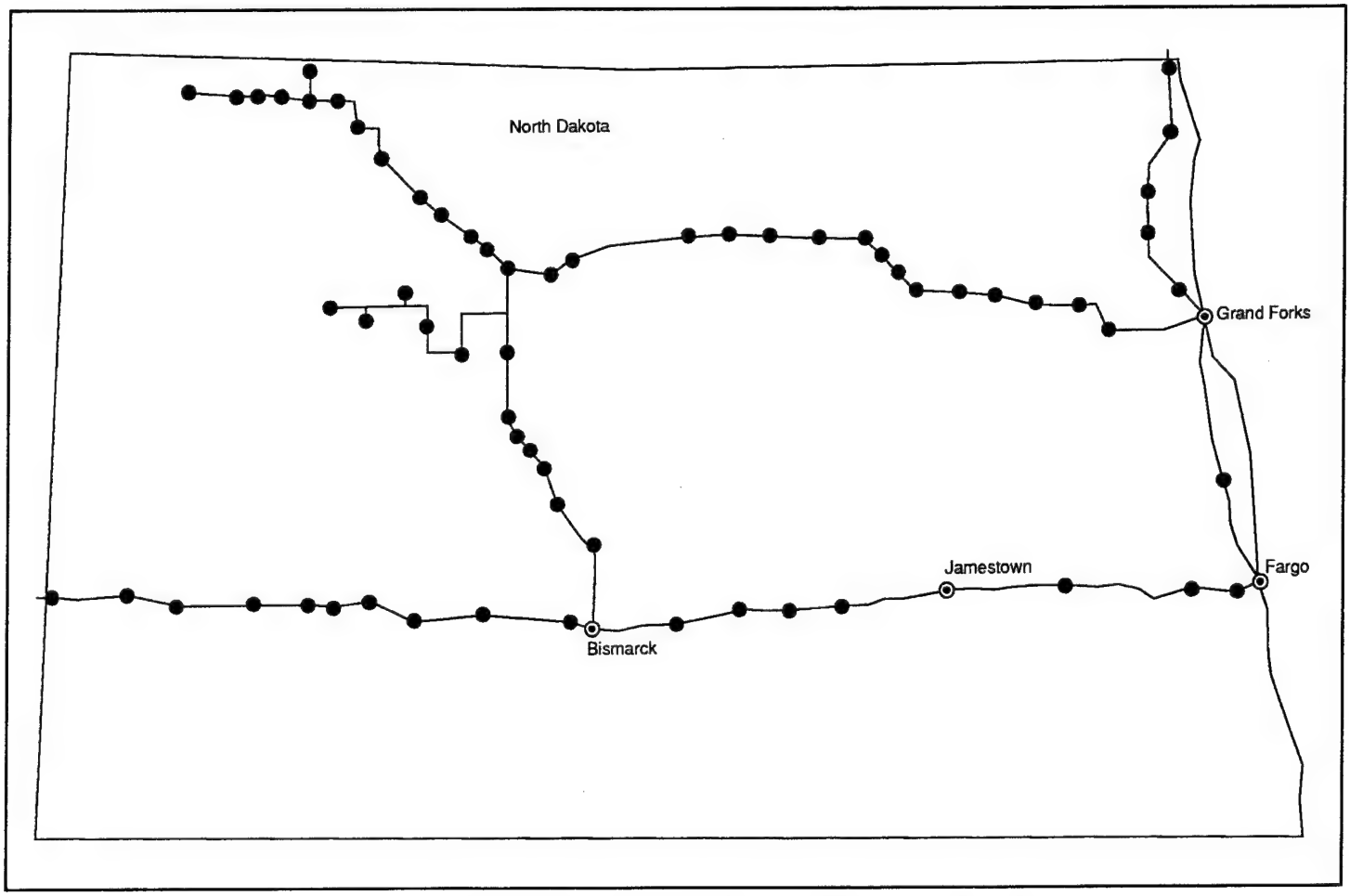


Sources: ICC, American Bus Association, Motor Carrier Ratemaking Study Commission, and GAO analysis of Russell's Guide. For more information on sources, see app. II.

When entire routes were abandoned, large geographic areas lost service, especially in sparsely populated midwestern and western states. For example, large sections of North Dakota no longer have intercity bus service. In 1979, 129 locations in North Dakota had intercity bus service; by 1991, only 68 locations had service (see fig. 2.3).

Figure 2.3: Intercity Bus Routes in North Dakota, 1979 and 1991





Sources: Russell's Guide and Souris Basin Transportation Board.

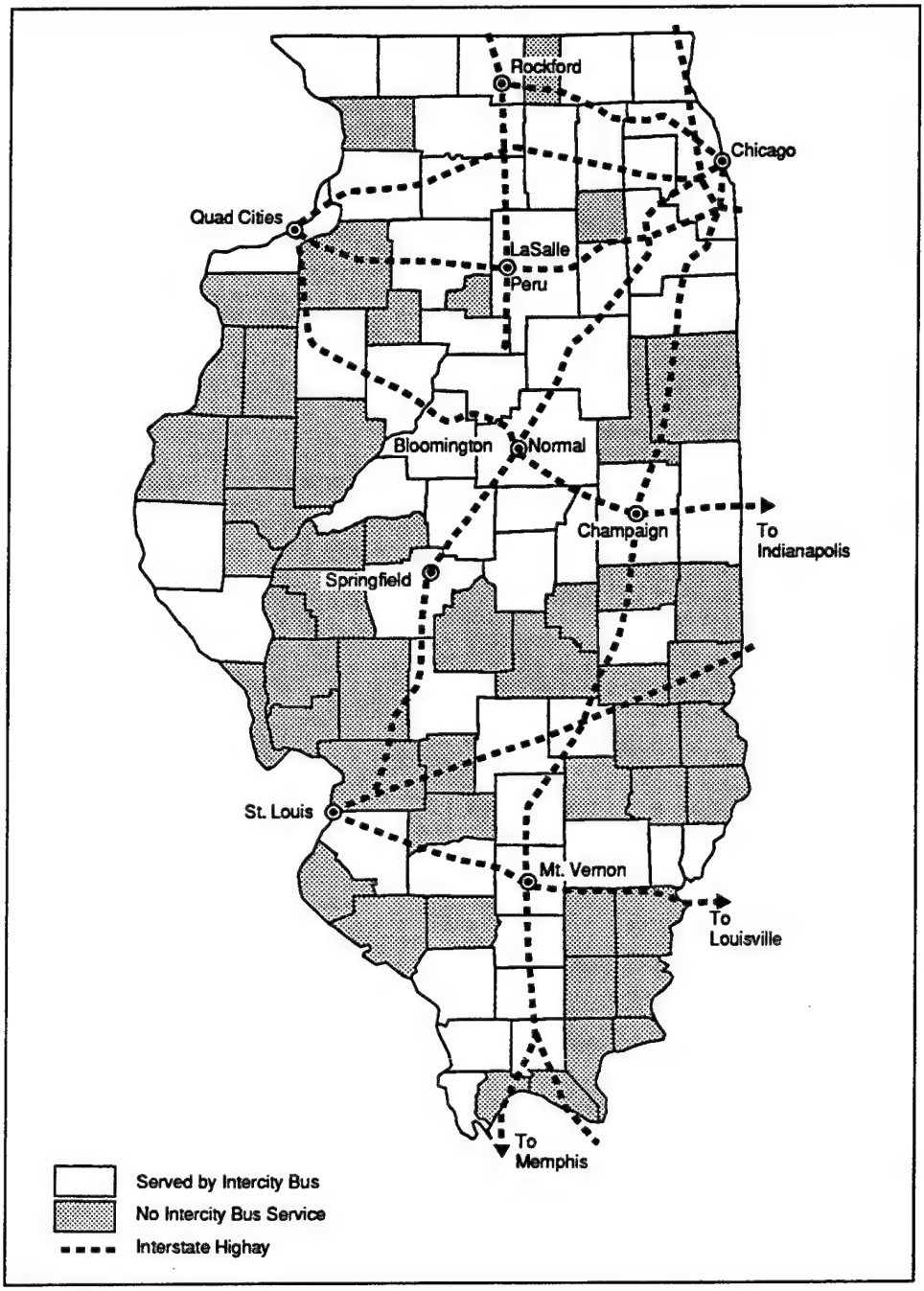
In many regions bus service now follows the interstate highways, leaving communities away from the interstate corridors without service. In Illinois, for example, large areas outside the Chicago/Memphis, Chicago/Quad Cities,[7] or Chicago/St. Louis interstate corridors have no intercity bus service. In November 1991 we found 100 Illinois locations with bus service, compared with 729 locations in 1982. Furthermore, 50

[7]The Quad Cities are located at the Illinois/Iowa border and include Moline and Rock Island, Illinois, and Bettendorf and Davenport, Iowa.

nonmetropolitan counties had no intercity bus service.[8] Figure 2.4 depicts the geographic clustering of service availability.

[8]Seven of these counties had one Amtrak stop.

Figure 2.4: Geographic Distribution of Counties Without Intercity Bus Service in Illinois, 1991

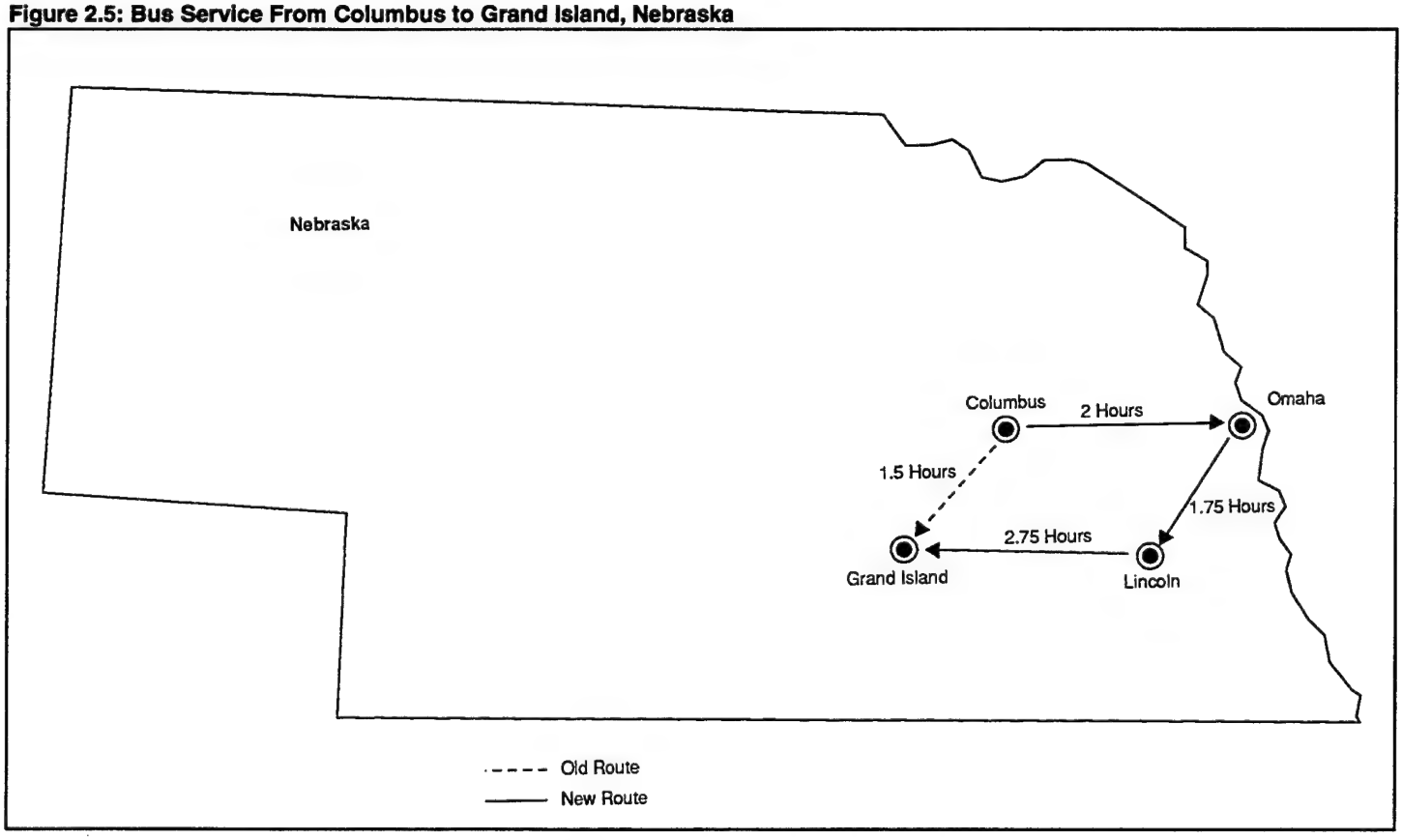


Sources: GAO analysis of information from Russell's Guide, November 1991.

Service Has Been Downgraded at Other Locations

While some communities lost all bus service, others were served by fewer routes to fewer destinations. As routes were abandoned, some riders had less direct service to some destinations. For example, in 1982 Greyhound offered direct service from Columbus to Grand Island, Nebraska. In 1987 this bus route was abandoned. To get from Columbus to Grand Island, a bus rider must now go east to Omaha and then back southwest to Grand Island (see fig. 2.5). A trip that used to take 1-1/2 hours now takes 6-1/2 hours, and the round trip can no longer be made in 1 day.

Figure 2.5: Bus Service From Columbus to Grand Island, Nebraska



Source: Russell's Guide, October 1982, November 1991.

After regulatory reform, bus service became less frequent and less convenient in some locations. A DOT study of 412 city pairs found a

3-percent annual average decline in the frequency of bus service from 1981 to 1986.[9] In some locations the change was more dramatic:

- Weekly bus departures in 12 states had declined at an average annual rate of 4.8 percent from 1975 to 1982, with a 16-percent drop in 1983 and a 4-percent decline in 1984, according to an Indiana University study.[10]
- In the 2 years following regulatory reform, the number of bus "exposures" (each time a bus passes through a service point) in Illinois decreased by 30 percent, the Illinois Commerce Commission reported.[11]
- Regular-route intercity bus service in California declined about 10 percent per year on average from 1982 to 1988, according to the California Department of Transportation. The Department concluded that reduced service frequency was the largest change in regular-route intercity bus service since regulatory reform of the industry in 1982.[12]

Service convenience involves the directness of routes as shown in the Nebraska example or the time of day service is provided. A bus company's ability to provide convenient service is complicated by the differing needs of riders on the same bus. A passenger going from Chicago to Denver does not care what time the bus stops in towns along the way, while a rider traveling to and from intervening points along that route may be inconvenienced by a bus leaving Des Moines, Iowa, at 1:30 a.m. and arriving in Omaha, Nebraska, at 3:45 a.m.[13]

Population Shifts and Competition From Other Modes Led to Bus Service Declines

Intercity bus service declined in response to reduced demand, which was rooted in fundamental social and economic changes. Urban populations have been growing and rural populations have been stagnant or declining since the 1920s.[14] In 1950, 36 percent of the U.S. population lived in rural areas; by 1989 that figure had fallen to 27 percent. The population

[9]Edward Ramsdell and Imogene Burns, Current Trends in the Health and Structure of the Intercity Bus Industry, DOT, Transportation Systems Center (Cambridge, Mass.: 1986).

[10]Clint Oster and C. Kurt Zorn, The Impacts of Regulatory Reform on Intercity Bus Service, DOT, University Research Program (Washington, D.C.: Sept. 1984).

[11]Illinois Bus Service Since the Bus Act: A Diminishing Intercity Network, Illinois Commerce Commission (Springfield, Ill.: Nov. 1984).

[12]Rural Intercity Passenger Transportation: Report on the Western Regional Symposium, U. S. Department of Agriculture, Office of Transportation (Washington, D.C.: May 1988).

[13]Scheduled Greyhound service based on Russell's Guide, Nov. 1991.

[14]The Bureau of the Census defines urban populations as those in urbanized areas with at least 50,000 residents or places outside urbanized areas with at least 2,500 residents. Rural populations are those not classified as urban.

distribution also changed as working-age residents left farms and isolated rural communities to seek jobs. By 1989 only 7 percent of the rural population lived on farms.

The long-term increase in per capita income has had an adverse effect on intercity bus travel.[15] Higher incomes have led to increased ownership of personal motor vehicles, and this, in turn, has reduced the demand for intercity bus service. The average number of vehicles per household increased from 1.2 in 1969 to 1.6 in 1977 and 1.8 in 1990, when more than half of all households had 2 or more vehicles. A second vehicle can be used to make intercity trips without inconveniencing the rest of the household. Also, as income rises, the opportunity cost of time in transit increases. Seeking to minimize this cost, passengers shift to faster modes of transport. For short distances, private motor vehicles are generally faster than buses. These trips have become even more efficient because of the development of interstate highways and other road improvements.

Low rail fares also make it difficult for intercity buses to capture and retain ridership in markets where public-supported Amtrak service competes. Federal grants and state sponsorship of certain routes allow Amtrak to set competitive fares, as indicated in table 2.1. For example, in 1991, North Carolina provided Amtrak with $1.04 million to support the service between Rocky Mount, Raleigh, and Charlotte. This allows Amtrak to charge less than one-half the standard bus fare between Raleigh and Charlotte.

[15]Michael W. Babcock and H. Wade German, "A Model of the Demand for Intercity Bus Travel," Transportation Research Forum, Vol. 25 (1984), pp. 187-193.

Table 2.1: Modal Comparison of Lowest Public Carrier Fares and Travel Times for Selected City Pairs

City pairs	Air	Amtrak	Bus
Chicago to Detroit			
Fare	$ 37	$ 21	$ 20
Hours travel time	1	5.5	6
Chicago to St. Louis			
Fare	37	25	26
Hours travel time	1	6	7.5
Chicago to Los Angeles			
Fare	179	115	103
Hours travel time	4	50	48
New York to Washington, D.C.			
Fare	60	45	29
Hours travel time	1	3.5	4.5
New York to Miami			
Fare	139	115	68
Hours travel time	3	28	27
Philadelphia to Washington, D.C.			
Fare	59	26	16
Hours travel time	1	2	4
Raleigh to Charlotte, NC			
Fare	62	13[a]	27
Hours travel time	1	4	5

Note: Fares are one-way, based on purchasing a round-trip ticket. Hours travel time refers to the average time for a one-way trip.

[a]North Carolina subsidizes this Amtrak route.

Sources: Fare and schedule information were obtained for trips during December 1991 and January 1992 with a 21-day advance purchase ticket for a 5- or 7-day stay over a weekend, from Amtrak; Greyhound; Carolina Trailways; Trump Shuttle; United, American, and Southwest Airlines; and USAir.

In certain markets many travelers have shifted from buses to airlines because air fares are relatively low and travel times are shorter. For example, in the Chicago/Detroit and Chicago/St. Louis markets, Southwest Airlines offers fares that are $17 and $11 more than the bus, respectively, but the flight takes only 1 hour, compared with 6- or 7-1/2 hours on the bus (see table 2.1). Between New York and Miami, travel by air costs about $71 more than by bus, but the bus takes more than a day to make the trip, compared with 3 hours by plane.

Intercity Bus Industry Expected to Decline Further

About half of the state transportation officials that we surveyed believe bus service will shrink further. Forty-four percent believed intercity bus service would decline somewhat in their state during the next 5 years. An additional 8 percent believed it would decline greatly. Although most of the remaining state officials responded that it would be unchanged, 12 percent expected intercity bus service to grow somewhat during the next 5 years. As described earlier, intercity bus carriers are generally in poor financial health, and the largest carrier, Greyhound, has just emerged from bankruptcy protection. Competition with other modes for both passengers and package express is keen, and personal motor vehicle use continues to rise, leaving only limited demand for intercity bus service. Unless automobile use is reduced by large gasoline price increases or subsidies to other modes are removed, the intercity bus is unlikely to gain an increased share of the intercity travel market.

Bus Service Declines Affect Those With Least Access to Transportation Alternatives

The decline in intercity bus service is undisputed, but the social and economic significance of the decline are difficult to assess. Data on the number of people affected by service abandonments and the nature of this effect are scant. The number of regular-route intercity bus passengers declined from 75 million in 1983 to 37 million in 1990. There are no data, however, indicating how many depended on the bus. Nonetheless, the limited evidence available suggests that the abandoned riders are those least able to afford and least likely to have access to alternative transportation. While rural and small urban transit services meet some needs, such services are only available in 60 percent of the nonmetropolitan counties, and it is uncertain to what extent these services fulfill transportation needs once met by intercity bus service.

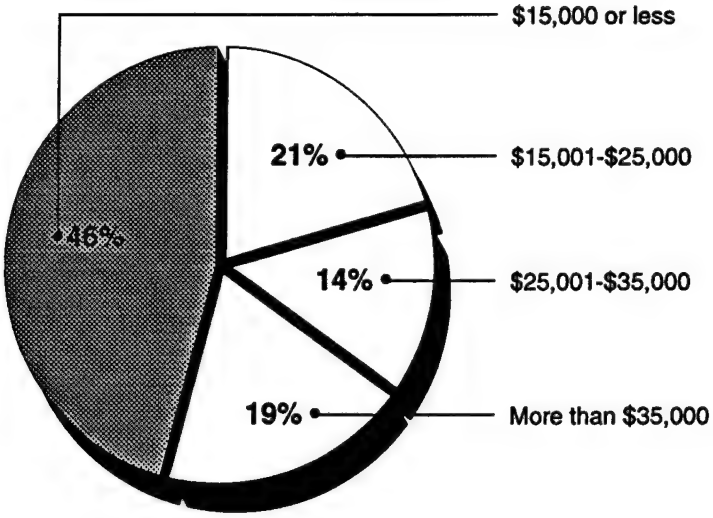
Impact Felt by Those With Least Access to Transportation Alternatives

Generally, abandonments occurred on routes connecting small, geographically isolated rural communities without rail or air service. The Motor Carrier Ratemaking Study Commission found that 80.7 percent of the points abandoned had a population of less than 2,500. These abandonments occurred when communities were losing population and services, such as medical facilities, financial institutions, and commercial establishments. This, in turn, increased residents' need to get to larger cities to obtain these services. For example, from 1980 through 1988, 200 rural hospitals closed in 37 states across the country.[16]

[16]Rural Hospitals: Federal Efforts Should Target Areas Where Closures Would Threaten Access to Care (GAO/HRD-91-41, Feb. 15, 1991).

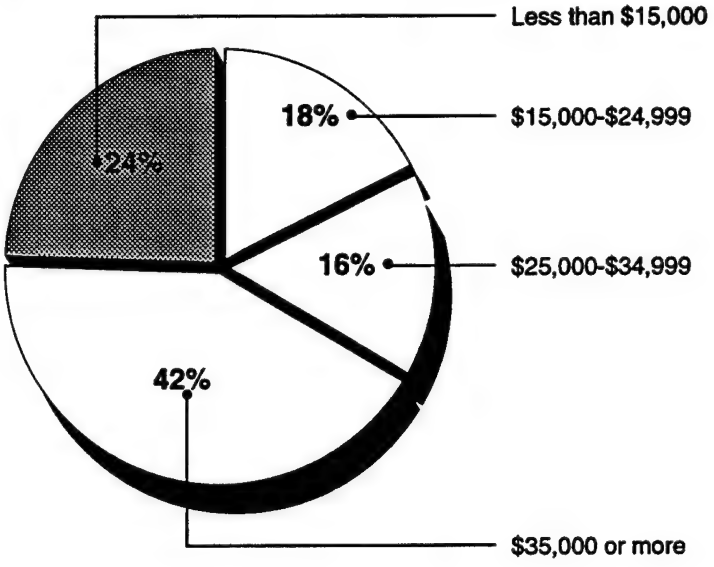
Bus riders often have low incomes and do not have access to personal motor vehicles. An April 1991 Greyhound passenger survey found that 46 percent of passengers had household incomes of $15,000 or less per year. (See fig. 2.6.) By comparison, only 24 percent of all households have incomes under $15,000. (See fig. 2.7.) Bus riders are also less affluent than airline passengers. Less than 19 percent of airline passengers had household incomes under $20,000, while 50 percent had household incomes greater than $40,000. By comparison, only 19 percent of Greyhound passengers had household incomes greater than $35,000. In addition, Greyhound found that 54 percent of its riders did not own an automobile or did not own an automobile they would feel comfortable taking on a trip of over 500 miles. While only 9 percent of all households did not own a motor vehicle in 1990, 22 percent of Greyhound riders reported that they took the bus because they did not own a motor vehicle.

Figure 2.6: Income Distribution of Intercity Bus Riders



Source: Greyhound On Board Passenger Survey, April 1991.

Figure 2.7: Income Distribution of the General U.S. Population



Source: U.S. Bureau of the Census, Money Income of Households, Families, and Persons in the United States: 1990 Current Population Reports, Series P-60, No. 174 (Washington, D.C.: 1991).

While most bus trips are made for social or recreational reasons, other trips are made because of family emergencies, to find jobs, or for personal business. According to bus studies conducted in California, Georgia, Indiana, Michigan, Oregon, Tennessee, Texas, and Wisconsin between 1977 and 1986, 43 percent to 69 percent of bus trips were to visit friends and relatives, for vacation, or for other social and recreational purposes. A Greyhound survey found that 67 percent of Greyhound passengers were visiting friends or relatives or were on a vacation or pleasure trip, 18 percent were on personal or company business, 11 percent made the trip because of a personal or family emergency, and 9 percent were either looking for work or traveling to and from work.[17]

Anecdotal evidence from studies and state officials suggests that there is a social cost associated with lost service. A grandmother's visits to her grandchildren, a wife's visits to her ailing husband at a distant Veteran's Administration hospital, or the 20-year old college student's visits home, are the types of trips that may be foregone. In addition, local businesses

[17]Percents add to more than 100 because the survey allowed for multiple responses.

may pay a price for lost service—especially to ship or receive items that are not usually delivered by other package express firms. The local flower shop might face increased costs because it can no longer obtain fresh flowers via bus package express; costs could rise for the regional blood bank that now has to pay more to transport blood to the rural hospital; and the farmer could be inconvenienced and lose revenues because he has to wait longer for a tractor part to complete his harvest. However, there are no hard data on the extent of the losses to either individuals or firms from the service abandonments. There are certainly impacts, but without any clear measure of their magnitude, it is difficult to assess the need for a public policy response.

Although rural and small urban transit services are available to meet some transportation needs, it is not clear that they fulfill the same needs that intercity bus service once did. The Community Transportation Association of America estimates that 60 percent of the nonmetropolitan counties across the nation have some public transportation, an additional 29 percent of these counties have specialized transit serving the elderly and/or disabled, but the extent and type of service varies. In some counties only the major towns are served. For example, in rural Minnesota 22 counties have no public transit service, and 22 others have public transit services in only a few major towns. In Illinois, 21 percent of the nonmetropolitan counties have no public transit, and an additional 32 percent have only specialized transit providers. With no bus or public transit service, the personal motor vehicle is the only transportation alternative, unless someone is a client of a social service agency that provides transportation. Those who do not own cars or do not drive must rely on friends or family to take them places or they must forego trips.

Conclusions

Regulatory reform of the intercity bus industry in 1982 did not improve the industry's financial condition or stop the long-term decline in bus service. During the past decade bus ridership has dropped along with the industry's share of the intercity travel market. Greyhound, the only nationwide carrier, emerged from bankruptcy protection in October 1991. Its long-term viability and success as a reorganized firm is yet to be demonstrated.

Since 1982, over 6,000 locations, mostly in rural areas, have lost bus service. In addition, convenience and frequency of bus service at many other locations has been reduced. This decline is a response to shrinking

demand as Americans switched to travel by motor vehicles, passenger rail, and airplanes.

The effects of declining intercity bus service are difficult to assess because of scant data on the characteristics of bus riders. Without understanding the severity of the effect of declining service, it is difficult to develop an appropriate policy response at the state or federal level. The limited evidence suggests that the decline in intercity bus service has been felt most by those without access to alternative transportation. Most locations that have lost bus service are small rural towns without any other public transportation. Intercity bus riders tend to be less affluent than other travelers and less likely to own a car than the general population. They ride the bus because they do not have their own motor vehicles and either do not have access to or cannot afford other transportation. Former bus riders without public or specialized transit alternatives are either stranded or depend upon friends or family for rides. Discretionary trips to visit friends and family are foregone; essential trips for health care or business take planning to arrange a ride.

State Efforts to Improve Intercity Bus Service Should Be Enhanced by the 1991 Act

Twenty states have ongoing efforts to maintain or support intercity bus service. These activities range from financial support for individual bus routes, which can cost as much as several million dollars annually, to marketing efforts that cost a few thousand dollars a year. Other state and private efforts have enhanced access to intercity bus service in rural areas by encouraging local transit agencies to provide connecting service to the nearest intercity bus stop.

State efforts to expand intercity bus transportation may increase as a result of a set-aside provision in the Intermodal Surface Transportation Efficiency Act of 1991. However, some states could face difficulties using the funds effectively, depending on how FTA defines intercity bus service in guidance it plans to issue by August 1992, and because of federal labor protection requirements.

State Activities Vary in Approach and Level of Support

Our survey identified 20 states with activities to support intercity bus transportation (see table 3.1). These programs include subsidies to (1) support continued operations over specific routes, (2) provide carriers with new vehicles at reduced cost, and (3) finance terminal construction or rehabilitation. Both states and localities have also aided the bus industry and its ridership in other ways, such as through marketing and technical assistance programs. While local governments sometimes participate in these programs, states provide the major support. To better understand the state programs, we reviewed intercity bus programs in 10 states identified by industry analysts as representing the types of efforts being undertaken nationwide.

Table 3.1: Type of Assistance Offered by States to Support Intercity Bus Service

State	Operating assistance	Vehicle assistance	Terminal assistance	Other
Arizona	X			
California[a]			X	X
Delaware	X[b]			
Iowa[a]				X
Maine	X	X		
Maryland	X[b]	X[b]		
Massachusetts[a]	X[b]	X[b]	X	X
Michigan[a]	X	X	X	X
Nebraska[a]	X			X
Nevada	X			
New Jersey	X[b]	X[b]		
New York[a]	X			
North Carolina[a]	X			X
North Dakota	X	X		
Oregon[a]				X
Pennsylvania[a]	X		X	X
Rhode Island				X
Texas			X	
Vermont				X
Wisconsin[a]	X			

[a]We reviewed this state program.

[b]Assistance is for intercity bus service that primarily serves commuters.

Activities in the 20 states are funded by a variety of state, federal, and local sources. Seventeen states use federal funding; 14 of these states also use state or other funds. Three states only use state-generated funds. Thirty states have no programs to support intercity bus service.

Operating Subsidies Maintain Bus Service but May Not Promote Long-Term Viability

Fourteen states provide operating subsidies to support service on bus routes. We reviewed the programs in seven of these states (see table 3.2). Typically, operating subsidies for intercity bus service are designed to maintain public transportation for residents of rural areas and small towns. To obtain operating assistance, a carrier usually applies for state aid as an alternative to abandoning service on an unprofitable route. Some

states also subsidize new operations on previously unserved routes, although such efforts occur less frequently.

Table 3.2: Overview of Selected Operating Subsidy Efforts

Dollars and mileage in thousands

State	Annual funding	Number of routes	Annual mileage
Massachusetts[a]	$2,000	19	1,778
Michigan[a]	252	2	203
Nebraska[b]	228	2	303
New York[a]	6,803	113	10,787
North Carolina[c]	58	2	2,994
Pennsylvania[a]	1,332	16	2,191
Wisconsin[c]	271	6	530

Note: Funding figures are for calendar or state fiscal year 1991.

[a]All state funds.

[b]Fuel overcharge funds. Program terminated in May 1991.

[c]All federal section 18 funds; no state funds provided.

Sources: State departments of transportation.

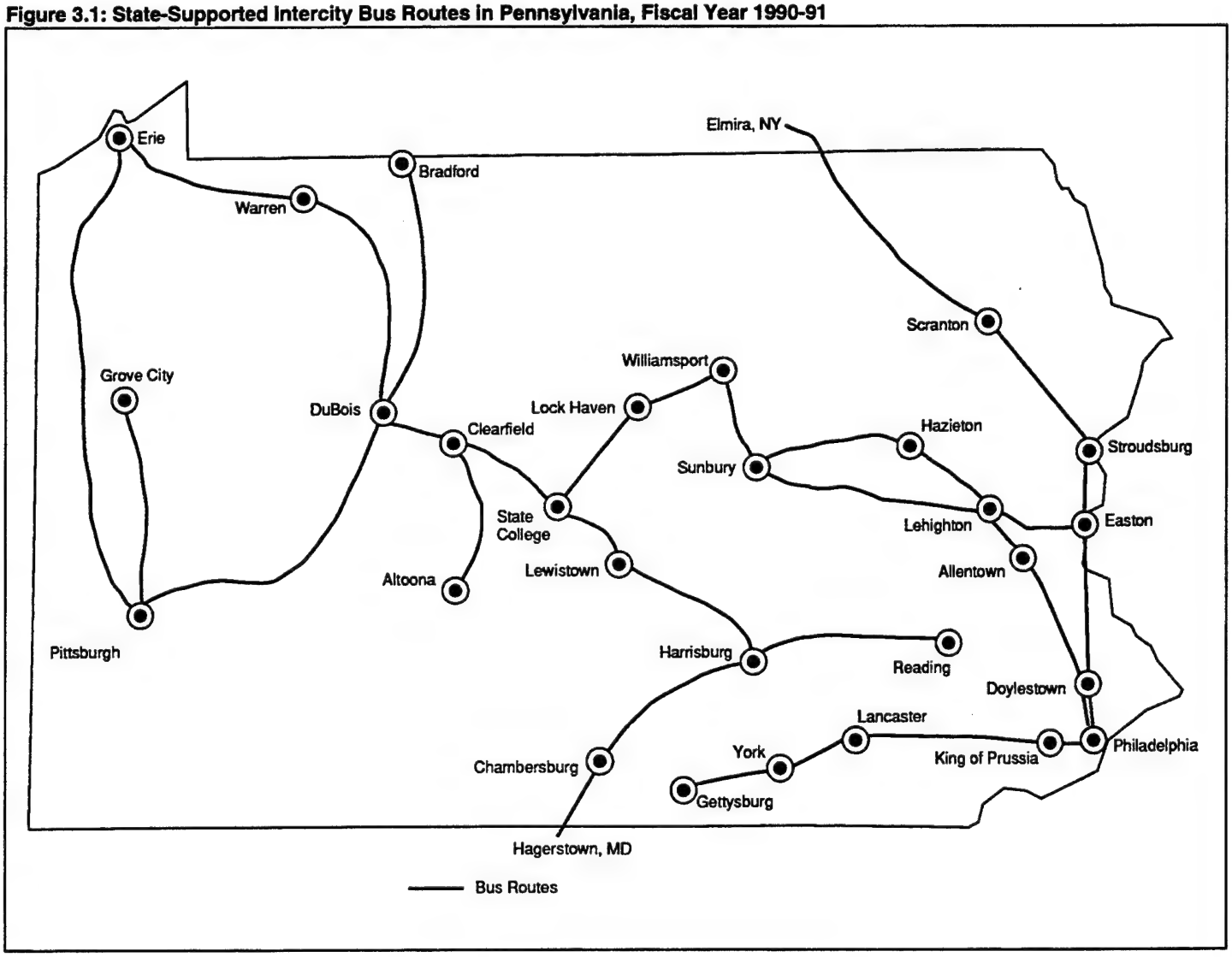
The seven operating subsidy programs we reviewed vary widely in size and resources. The largest state programs, those in Massachusetts, New York, and Pennsylvania, are legislatively mandated and funded solely with state funds. Less extensive programs, those in North Carolina and Wisconsin, are financed with section 18 monies. The Michigan program is financed entirely with state funds.

Typically, the purpose of these state programs was to support service on routes that might otherwise be abandoned. However, each state established different criteria for determining which routes should receive funding. For example, Pennsylvania gives priority to routes serving smaller towns between route end points. It excludes routes shorter than 35 miles. New York's program is designed to link smaller communities with urbanized areas, but it will generally not fund routes with fewer than 10 passengers per trip.

We found that operating subsidies provide a direct means of ensuring continued service on routes that otherwise might be abandoned. For example, New York and Pennsylvania have used operating subsidies to maintain extensive route networks serving many towns that otherwise

might have no intercity public transportation. Figure 3.1 illustrates Pennsylvania's subsidized network. Officials in both states credited their operating subsidy programs with reducing service disruption following regulatory reform of the bus industry in 1982.

Figure 3.1: State-Supported Intercity Bus Routes in Pennsylvania, Fiscal Year 1990-91



Source: Pennsylvania Department of Transportation.

The experience of some states suggests that operating assistance needs to be funded over the long term. Programs in New York and Pennsylvania are extensive and long-standing partly because they are legislatively established. These state governments have provided assistance since the 1970s as long as the subsidized routes met minimum criteria. In these states and others, however, operating assistance has not led to increased ridership on subsidized routes, which would be necessary for the routes to become profitable and no longer require subsidization. In Michigan, North Carolina, and Nebraska, operating subsidies have ended on certain routes because of insufficient ridership and revenue.

Vehicle Assistance Programs Can Maintain and Enhance Service

Six states have vehicle assistance programs. We reviewed the programs in Massachusetts and Michigan. Through these programs state-owned buses are leased to private carriers for a reduced fee in return for operating regular-route intercity bus service. The potential benefits to bus passengers are twofold. First, by helping private carriers obtain new equipment at reduced cost, these programs relieve carriers of capital costs, allowing them to provide service on marginally profitable or unprofitable routes. Second, the programs encourage bus firms to use comfortable, reliable, and safe new equipment on these routes, which may attract additional riders.

Since 1988, Michigan's vehicle assistance program has leased eight buses to private carriers at a cost to the state of about $1.8 million. The state leases buses to private carriers for up to 6 years at a nominal fee of $1 per year. At the end of the lease, the state sells the buses. Since the program began in 1976, Michigan has leased 160 buses to 13 private carriers.

Since its program began in 1985, Massachusetts has bought 49 buses, costing about $10 million, which it leases to intercity bus companies. The state expects to recoup the principal cost of the buses through lease payments and by selling the buses at the end of their 7-year lease periods. The state finances initial bus purchases through bonds. Theoretically, the actual cost to the state should be limited to the interest paid on these bonds. However, the first buses have not yet been sold, so it remains to be seen how much the state will recoup.

As they did for operating subsidies, the states we reviewed developed participation criteria. For example, a major objective of Michigan's program has been to ensure a statewide network of intercity bus routes by

requiring leased buses to be used only on specific regular routes lacking alternative intercity transportation.

Vehicle assistance programs can be an effective means of continuing and enhancing service. According to state officials, programs in Michigan and Massachusetts have improved the quality of service on certain routes, reversing the tendency of carriers to reserve the best-quality vehicles for charter service, and to use older, less attractive equipment on regular routes. A carrier in Michigan noted that ridership increased on routes using the new vehicles, but that it was impossible to determine the extent to which the new buses are responsible for the increase. State and carrier representatives also told us that vehicle assistance serves as a substitute for operating subsidies—many routes receive service only because of the capital savings offered by vehicle assistance.

Experience has shown that vehicle assistance programs need to be carefully designed and implemented. First, restrictions on vehicle use must be balanced against the need to encourage carrier participation. According to a 1987 review of Michigan's program,[1] Greyhound, which provided 65 percent of regular route service in the state, did not participate in the bus loan program because of restrictions on using the buses outside the state. Given Greyhound's large fleet size, the company could not easily monitor specific vehicles. Second, the state needs to play a role in determining which routes receive assistance. At the time of the study, Michigan had little or no role in choosing the routes to receive assistance. Because of this, inexperienced carriers obtained vehicles for new routes only to learn that a sufficient market did not exist. The 1987 study showed that some smaller carriers had operated little or no scheduled service prior to participating in the program. These carriers increased or began scheduled service in order to obtain buses. In some cases, these firms were unable to estimate potential ridership and chose a route simply to qualify for buses under the program. According to Michigan officials, several were unable to cover operating losses on these routes, even with low-cost bus leases, and subsequently discontinued service. This left the state with the administrative task of disposing of the buses.

[1]F.D. Fravel, P.M. Lebeaux, and R.E. Menzer, Comprehensive Review of the Intercity Division, Phase II: Evaluation of Intercity Bus Programs in the State of Michigan, (Bethesda, Md.: Ecosometrics, Inc., 1987).

Intermodal Terminal Assistance Can Improve Access to Bus Service

Five states have ongoing programs to assist in building or remodeling bus terminals; we reviewed the programs in four of these states (see table 3.3). These projects provide less direct assistance to bus firms than operating or vehicle subsidies, but, in the long run, they can improve the quality of and accessibility to intercity bus service. Under these programs, states and localities provide funds to construct new terminals or rehabilitate existing facilities. Typically, these terminals are intermodal; that is, they accommodate more than one type of transportation, such as passenger trains, local and regional transit systems, taxis, and intercity buses. Terminal assistance projects may be joint efforts that include the state, local government, and carriers. For example, the local community may donate the land for the terminals, the state may provide funds for terminal planning and construction, and carriers and other tenants may maintain the terminals.

Table 3.3: State Terminal Assistance Programs

Dollars in thousands

State	First terminal completed	Number of terminals	State costs	Total costs[a]
California	1983	8	$15,214	**$50,817**
Massachusetts	1991	1	1,500	**4,000**
Michigan	1977	13	25,198	**27,857**
Pennsylvania	1981	5	4,200	**24,913**

[a]Total costs include federal, state, and local funds.

Note: State and total costs adjusted to 1991 dollars. California and Michigan data reflect only terminals accommodating intercity buses under the California Transit Capital Improvement Program and the Michigan Passenger Terminal Program.

Source: State departments of transportation.

Intermodal terminals may improve the quality and accessibility of bus service in several ways. First, such projects improve the comfort and safety of terminals, remedying the public's perception of bus terminals as dirty and unsafe. Second, a central terminal for intercity bus service, passenger rail service, and local and regional transit systems can increase public awareness of transportation options. Third, intermodal terminals can ease passenger transfers from one mode to another. This can be especially helpful for passengers who need to make connections between intercity buses and local and regional transit.

Because of the relatively large expenditures involved and long-term consequences, intermodal terminal projects may not be suited to all

circumstances. Because terminal projects may help increase the number of passengers on intercity buses, they can be appropriate where a state wishes to maintain or increase bus ridership. Where existing and potential demand is low, however, vehicle or operating subsidies may be more appropriate because they have a more direct effect on bus firms and bus riders.

Other Forms of State Assistance Are Available

Ten states provide other types of assistance to promote intercity bus service; we reviewed 8 of these states (see table 3.1). Seven of the states we reviewed have marketing efforts, such as preparing promotional materials or placing signs to help travelers find bus stops. The North Carolina Department of Transportation, for example, published a public transportation guide that included a map of intercity bus routes and information on other forms of intercity and local transit. In addition to publishing a similar map in 1989, Oregon has placed signs on highways and city streets to remind travelers of the bus as an alternative to driving and to help people find bus stops and stations. According to state officials, these and other efforts facilitate the use of intercity bus service and encourage increased ridership.

Other forms of assistance offered by the states we reviewed include passenger shelters, tax relief, technical assistance, and service coordination. Massachusetts offers a fuel tax rebate to bus firms as an incentive to provide regular-route service. Under this program, bus firms receive tax credits on fuel expenditures associated with regular-route service. Iowa offers technical assistance to bus firms, such as helping a regional carrier establish a toll-free telephone number to provide riders with free route and schedule information.

Coordination Efforts May Increase the Availability of Bus Service

Rural or small urban transit services, available in approximately 60 percent of the rural and small urban counties nationwide, meet many transit needs. Such services, which sometimes cover several counties, can also provide transportation to the nearest intercity bus terminals. This connecting service may effectively substitute for direct intercity bus service for communities not on main routes. This service may also be more cost-effective than intercity bus service on sparsely traveled routes because the rural and small urban agencies operate smaller buses and vans.

Recognizing the potential advantages of such coordination, Greyhound and the Community Transportation Association of America[2] initiated the Rural Connection Program in 1987.[3] Transit providers participating in this program transport people between unserved areas and designated bus terminals. To publicize and promote the program, Greyhound provides marketing materials and lists participants in Russell's Guide, a nationwide schedule directory for the bus industry. As of December 1991, this program encompassed 73 transit providers serving over 850 communities in 20 states.

A 1990 analysis of the Rural Connection Program identified several factors that enhance the likelihood that such programs will meet the transit needs of those in rural areas.[4] For example, the transit provider must have sufficient funds for marketing. Many transit agencies do not have enough funds to market their service, and consequently potential passengers may be unaware of the service. Also, more travelers could be served if transit schedules were coordinated with bus schedules. Peak times for intercity bus service are evenings and weekends, while many transit agencies only operate during normal business hours, Monday through Friday. The analysis of this program found, however, that ridership and revenue were generally low for the participating carriers, which would make it difficult for them to expand service without local, state, or federal assistance.

From 1988 to 1991, Michigan conducted a demonstration program to supplement the Rural Connection Program by coordinating hours of local and intercity bus service and providing extensive marketing and promotion. At its peak in 1990, the program included six local transit providers serving six counties. Results of the program were mixed, however, and the state discontinued funding when the demonstration program ended in 1991.

[2]The Community Transportation Association of America is a national organization that provides advocacy for and technical assistance to rural transportation operators.

[3]The program was partially funded with an FTA grant.

[4]Frederic Fravel, Elisabeth Hayes, and Kenneth Hosen, The Intercity Bus Feeder Project Program Analysis, (Bethesda, Md.: Ecosometrics, Inc., 1990).

New Surface Transportation Act Has Important Implications for State Assistance to Bus Service

The Intermodal Surface Transportation Efficiency Act of 1991 recognized the need to expand federal transit activities to address intercity transportation needs. The law amended the Urban Transportation Act of 1964 (later renamed the Federal Transit Act), which authorized using section 18 funds in nonurbanized areas. By contrast, after a 2-year phase-in, the 1991 act requires states to set aside at least 15 percent of their section 18 funds to support intercity bus service, unless the governor determines that the state has sufficient service. This legislation should supplement assistance to intercity bus service in states already having programs and may lead other states to establish programs. However, some states could face difficulties using the funds, depending on how intercity bus service is defined, and because of federal labor protection requirements.

Section 18 Set-Aside Could Increase State Support of Intercity Bus Service

The requirement to spend at least 15 percent of the section 18 funds on intercity bus service should increase state funding of intercity bus service. Eight states already use section 18 funds to enhance intercity bus service. We found that 43 states expect to use the 15 percent set-aside to promote intercity bus transportation. Only seven states indicated that they might waive the requirement by having the governor certify that intercity bus service is adequate. The act gives states wide latitude in determining how to spend the section 18 allocation, which can be used for operating assistance through purchase of service agreements, terminal development projects, and coordination between small transit operators and intercity bus carriers. Such flexibility will allow states to develop their own approach to meeting intercity bus service needs. For example, states wishing to take a long-range approach to maintaining or increasing ridership may use the funds to build or remodel terminals. In contrast, states wishing to maintain service on specific routes with relatively low demand may use the funds for operating assistance. FTA is developing guidance for implementing the section 18(i) set-aside. Its goal is to issue the guidance in August 1992.

Some Strategies May Help Ensure the Availability of Service

While the 1991 act recognizes the need to expand federal assistance to support intercity bus needs, our work revealed several issues that could inhibit using the set-aside funds to support intercity bus service. Although the act gives states wide latitude in determining how to spend the set-aside funds, some states may find it difficult to use these funds, depending on how FTA defines intercity bus service. While the 1991 act specifically allows funding of feeder service, the law is not clear that all aspects of that

service, such as operating costs, marketing expenses, technical assistance in developing marketing strategies, and expenses for after-hours service, are eligible for section 18(i) funding. In developing guidance for implementing the section 18(i) set-aside, FTA has not decided what service will be eligible for the set-aside funding. According to FTA officials, feeder service will be eligible, but not necessarily all aspects of it.

In addition, because of the scant data on the number of people affected by service abandonments and the nature of the effect, states may want to collect data on intercity bus needs before developing a policy response. As discussed in chapter 2, the impact of lost intercity bus service is felt most by those without access to other intercity transportation. Generally, bus service has been lost on routes connecting small rural communities without rail or air service. Further, bus riders tend to have low incomes, and many do not own cars. Although some overall demographic data exist on bus riders, little specific data exist on the number and characteristics of users of the abandoned services. According to our survey, only 15 states have studied the need for and trends in intercity bus service since 1982. Having such data could help states and FTA to ensure that the set-aside funds go to areas that are most in need of intercity service. Although FTA has been informally suggesting to states that they use section 18(i) funds for planning, they have not formalized this in guidance.

Finally, some states may be discouraged from using section 18 funds to assist the intercity bus industry because of potential liabilities associated with federal labor protection requirements. Section 13(c) of the Federal Transit Act requires the Secretary of Labor to ensure that the employment status and benefits of transit employees are not harmed as a result of assistance under the act.[5] According to literature we reviewed and comments by some state officials, the section 13(c) requirement can be an obstacle to using federal transit funds. The process may delay the release of transit funds, and the potential costs to the state or carrier resulting from the labor protection provisions may be a barrier to using the funds.

One state, for example, has determined that the wording of a section 13(c) contract provision made the state financially liable if transit employees lose employment, status, or benefits because of federal assistance. Kansas

[5]The Secretary of Labor is authorized to waive section 13(c) requirements for section 18 grants. However, in a 1979 guidebook, the Department of Labor states that the waiver can be granted only in cases where there are no employees of the recipient or of any other public transportation providers in the recipient's service area who could be affected by the proposed use of section 18 funds. According to Department of Labor officials, this situation rarely exists and only one waiver has been granted since the section 18 program began in 1978.

recently attempted to fund service by another private bus firm on routes that Greyhound planned to abandon, using a section 3 grant[6] to subsidize the initial capital costs. Representing the Greyhound drivers who would be affected by the abandonment, the Amalgamated Transit Union contended that the Kansas Department of Transportation should sign a section 13(c) agreement that would provide Greyhound's drivers with benefits comparable to their previous contract with Greyhound. Negotiations related to this request lasted about 2 years, until Kansas determined that the labor protection language required by the Department of Labor could cause the state's potential liability to exceed the amount of the federal assistance the state was seeking. Consequently, Kansas decided against accepting the grant and signing the section 13(c) agreement. As a result, replacement service was not provided. Officials of other states told us they had had similar experiences in attempting to use federal funds for intercity bus service.

Section 13(c) requirements have generally been less of an obstacle to obtaining section 18 funds than to obtaining other types of federal transportation assistance. This is primarily because all section 18 grant contracts between DOT, state agencies, and fund recipients include a special section 13(c) warranty. The warranty includes standard terms and conditions developed for the section 18 program. By Secretarial agreement between DOT and the Department of Labor, including the warranty in section 18 grant contracts satisfies section 13(c) requirements. As a result, section 13(c) agreements do not need to be approved by the Department of Labor on a time-consuming case-by-case basis. According to FTA and Department of Labor officials, this approach has made the section 13(c) certification process less burdensome for section 18 recipients than for recipients of other federal transit funds.

However, officials in Kansas and Indiana said that section 13(c) requirements could inhibit using section 18 funds for intercity bus service under certain circumstances. For example, using section 18 funds to replace service on a route to be dropped by an intercity carrier could result in the replacement carrier's having to pay salary and benefits equal to those paid by the previous carrier, which could be cost-prohibitive. Further, ICC officials believe that the section 13(c) requirements were confusing to some potential recipients of federal transportation funds and were preventing them from requesting the funds. For example, the

[6]Section 3 of the Federal Transit Act provides discretionary capital grants and loans to states for bus and rail transportation.

employees affected by the grant are not clearly identified under existing section 13(c) guidance, according to an analyst in Kansas.

Department of Labor and DOT officials are uncertain what overall effect section 13(c) has on using section 18 funds for intercity bus service. However, FTA officials noted that organized labor may have more interest in how section 18 funds are used for intercity transportation than for rural transportation, which may result in more potentially costly labor protection provisions.

Conclusions

Many states have provided funds to support intercity bus service where service might have otherwise deteriorated or been eliminated. State efforts include programs to (1) maintain service through operating assistance, (2) fund vehicles and terminals, and (3) coordinate bus service with other transportation modes. States have also undertaken smaller-scale informational, marketing, and other efforts. Voluntary coordination between bus firms and transit agencies have also enhanced access to bus service in some remote rural areas.

The recently enacted Intermodal Surface Transportation Efficiency Act of 1991 directed federal funds specifically toward addressing intercity bus transportation needs. It provides federal funds to develop and support intercity bus service while allowing states wide discretion in spending the funds. The use of these funds, however, may be limited by several factors. Although feeder service by rural and small urban operators is eligible for section 18(i) funding, it is not clear what aspects of this service will be eligible. In addition, section 13(c) labor protection requirements may discourage states from making the allocation. Finally, in implementing this program, FTA can help to ensure that the set-aside funds go to areas that are most in need of intercity bus service.

Recommendations

We recommend that the Secretary of Transportation direct the Administrator, FTA, when developing guidance to implement section 18(i) of the Intermodal Surface Transportation Efficiency Act, to

- clearly state the specific aspects of the arrangements between rural connection providers and intercity bus carriers that count toward meeting the required 15-percent set-aside and, in stating those aspects, to take into consideration marketing efforts and extended hours of service; and

- determine whether states should be allowed to use a portion of the section 18(i) set-aside to gather data on the population that has lost intercity bus service in order to identify intercity bus needs.

We also recommend that the Secretary of Transportation direct the Administrator, FTA, to

- assess whether section 13(c) poses a barrier to using section 18 funds for intercity bus service. Further, if DOT finds that section 13(c) does pose a barrier, DOT should work with the Department of Labor to identify ways to reduce the barrier.

Results of GAO State Survey

United States General Accounting Office

GAO

Survey of State Financial Support for Intercity Bus Service

All 50 states responded

INSTRUCTIONS

Please check all boxes that apply, unless otherwise instructed. In the event that the format for any question does not fit your situation, we would appreciate any additional comments required to properly answer the question. We have provided room at the end of the questionnaire for additional comments or explanations.

For the purpose of this questionnaire, support of intercity bus service means **direct subsidies or other forms of assistance.** Please include: helping local transit operators coordinate their operations and schedules with intercity bus companies that serve nearby communities or providing funds for the construction of intermodal terminals.

Please complete the questionnaire and return it in the enclosed envelope within 10 days of receipt, if possible. If you have questions about any specific items in the questionnaire, please contact Michael Hartnett or Sarah Brandt at 312-220-7600. If the self-addressed, postage-paid reply envelope is missing, please return the questionnaire to:

Mr. Michael Hartnett
U.S. General Accounting Office
Suite 700
200 W. Adams St.
Chicago, IL 60606

1. Does your state provide any funds to subsidize or otherwise assure continuation of intercity bus service? These could be state-generated funds or funds from other sources, such as UMTA's Section 18 program. *(Check one.)*

   20 Yes, we provide funds ⟶ CONTINUE WITH QUESTION 2

   30 No, we do not provide funds ⟶ SKIP TO QUESTION 4

2. How much of the financial support indicated above comes from state-generated funds? *(Check one.)*

   6 None of the financial support comes from state-generated funds

   3 All of the financial support comes from state-generated funds

   11 Some of the financial support comes from state-generated funds

   About what percent of state-generated funds is used to obtain matching federal funds?

   5 responses; range 0%-25%

3. What funding sources are used to provide financial assistance for intercity bus service? *(Check all that apply.)*

   8 Section 18 funds

   0 Section 16(b)(2) funds (to provide connecting passengers)

   1 Rural Transit Assistance Program

   11 Other federal funds *(Specify)*
   Section 4(i), Section 3, Section 8, Section 9, & Oil Overcharge Funds, Urban Initiatives, Federal Highways, Historic Preservation, Urban Redevelopment

   7 State general revenues

   2 Bonds

   10 Other state funds *(Specify)*
   State Transportation Fund, Gas Tax, Dedicated Mass Transit Tax, State Highway Fund

   9 Other non-state funds *(Specify)*
   Local Match, Private Contributions

4. Has your state conducted any studies since 1975 to identify the need for or trends in intercity bus service? *(Check one.)*

   25 No studies

   25 Yes ⟶ When were they completed?

   ____/____
   Month Year

   For information on this study contact:

   Name_____

   Telephone_____

5. Does your state have laws or regulations limiting or prohibiting the use of public funds to aid private bus companies? *(Check one.)*

   12 Yes, state limits or prohibits funding of private bus companies

   32 No, state does not limit or prohibit funding of private bus companies

   6 Don't know

6. In your opinion, in 5 years will intercity bus service in your state decline, grow, or remain the same? *(Check one.)*

   4 Decline greatly

   22 Decline somewhat

   18 Remain about the same

   6 Grow somewhat

   0 Grow greatly

   0 No opinion

7. In your opinion, is involvement by the federal government necessary so that intercity bus service is provided where it otherwise would not be provided? *(Check one.)*

   13 No opinion

   32 Yes, federal involvement is necessary *PLEASE EXPLAIN BELOW*

   5 No, federal involvement is not necessary *PLEASE EXPLAIN BELOW*

8. Please provide the name, title, and telephone number of the person completing the questionnaire to enable us to obtain any further information or clarification, if necessary.

   Name_____

   Title_____

   Telephone_____
   Area Code Number

9. Please provide the name, title, and telephone number of the person in charge of your state intercity bus program, if different from above.

   Name_____

   Title_____

   Telephone_____
   Area Code Number

10. If you have additional comments about your program or about any items in this questionnaire, please write them below or on a separate sheet of paper. Your comments are greatly appreciated.

Thank you for your cooperation!

Results of Studies on the Decline of Intercity Bus Levels, 1968-91

Year	Study	Locations losing all service	Locations served	Data source for study
1968	American Bus Association (ABA) 1978 analysis[a]	[b]	16,800	*Russell's Guide*
1977	ABA 1978 analysis[a]	1,760 since Sept. 1968	15,040	*Russell's Guide*
1982	GAO estimate	3,220 since 1977	11,820	ICC
1983	Motor Carrier Ratemaking Study Commission	2,154 since 1982	[b]	Greyhound, Trailways, ICC,AASHTO[c], NARUC[d], and *Russell's Guide*
1986	GAO estimate and ICC	3,763 since 1982[e]	8,460	*Russell's Guide*
1991	GAO analysis	6,130 since 1982	5,690	*Russell's Guide*

[a]Cited by Frederic D. Fravel, North Carolina Intercity Bus Study (Chapel Hill: Department of City and Regional Planning, University of North Carolina, Sept. 1979).

[b]No estimate made.

[c]American Association of State Highway Transportation Officials.

[d]National Association of Regulatory Utility Commissioners.

[e]Between 1982 and 1986, 3,763 locations lost service while 401 locations gained new service resulting in a net loss of 3,362 locations.

Sources: Letter to Senator Larry Pressler, from Heather J. Gradison, Chairman, Interstate Commerce Commission (Washington, D.C., Sept. 8, 1986); Fravel, North Carolina Intercity Bus Study, 1979; and A Report to the President and the Congress of the United States, Part One: Collective Ratemaking in the Bus Industry: The Need for Antitrust Immunity and Part Two Implementation of the Bus Regulatory Reform Act of 1982: The Impact on Older Americans and the Effect on Intrastate Bus Service, Motor Carrier Ratemaking Study Commission, (Washington, D.C., May 15, 1984).

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